Court File No. ____

Skyservice Airlines Inc.

PRE-APPOINTMENT REPORT TO THE COURT SUBMITTED BY FTI CONSULTING CANADA INC., IN ITS CAPACITY AS PROPOSED RECEIVER March 31, 2010

ONTARIO SUPERIOR COURT OF JUSTICE COMMERCIAL LIST

IN THE MATTER OF THE RECEIVERSHIP OF SKYSERVICE AIRLINES INC.

PRE-APPOINTMENT REPORT TO THE COURT SUBMITTED BY FTI CONSULTING CANADA INC. IN ITS CAPACITY AS PROPOSED RECEIVER

INTRODUCTION

- 1. FTI Consulting Canada Inc. ("FTI" or the "Proposed Receiver") has been informed that Thomas Cook Canada Inc. ("TCCI" or the "Applicant") intends to make an application under s. 243(1) of the Bankruptcy and Insolvency Act ("BIA") and s.101 of the Courts of Justice Act for an order (the "Order") appointing FTI as receiver (the "Receiver") of Skyservice Airlines Inc. ("Skyservice" or the "Company"). The proceedings to be commenced by the Applicant will be referred to herein as the "Receivership Proceedings".
- FTI is a licensed trustee within the meaning of section 2 of the BIA. FTI
 Consulting has provided its consent to act as Receiver (consent is attached as
 Appendix "A").
- 3. The purpose of this report is to inform the Court on the following;
 - · Relevant background information on Skyservice;
 - An independent review of the security held by TCCI and Gibralt Capital Corporation, the indirect controlling shareholder of Skyservice ("Gibralt");

- The Proposed Receiver's conclusions.
- 4. In preparing this report, the Proposed Receiver has relied upon unaudited financial information of the Company, the Company's books and records, certain financial information prepared by the Company and discussions with the Company's management. The Proposed Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Accordingly, the Proposed Receiver expresses no opinion or other form of assurance on the information contained in this report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.
- 5. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined herein have the meanings defined in the affidavit of Karim Nensi of Thomas Cook, sworn March 30, 2010, and filed in support of the application for the Order (the "Nensi Affidavit").

RELEVANT BACKGROUND INFORMATION

- Skyservice operates chartered aircraft services to various destinations in Canada, the United States, the Caribbean, Mexico and Europe.
- 7. Skyservice is a wholly-owned subsidiary of 6761551 Canada Inc. which in turn is 94% owned by Gibralt, a Vancouver-based private equity investment company.
- 8. As of March 31, 2010, the Company employs 1,088 employees, the majority of which are located in Mississauga, Ontario. Of the 1,088 employees, approximately 74% are unionized.
- 9. The table below shows the breakdown of headcount by location of their permanent residence:



Location	Unionized	Non Unionized	Total Employees
Ontario	513	255	768
Quebec	62	6	68
Manitoba	52	6	58
Alberta British	80	11	91
Columbia	63	5	68
Saskatchewan	33	0	33
Florida	2	0	2
Total	805	283	1,088

- 10. Skyservice's management ("Management") has advised that all employees have been paid for services performed through to March 31, 2010 including all wages owing as well as any outstanding vacation pay accrued as of that date.
- 11. Approximately fifty Skyservice employees are currently located outside of Canada. All are Canadian citizens working temporarily outside of Canada. The majority of these employees hold open return tickets. However, some do not. Accordingly, the proposed Order before this Honourable Court contemplates allowing the Receiver to fund the costs incurred by such employees in returning to Canada. It is estimated that these costs will total approximately \$50,000.
- 12. Skyservice owns an office building at 31 Fasken Drive, Toronto, Ontario. Additionally, it owns two hangars adjacent to the Pearson International Airport. The Company leases maintenance and warehousing facilities at 7611 Bath Road, Mississauga, Ontario and at Pearson International Airport. Outside of the Greater Toronto Area, Skyservice leases office space in the Montreal airport and leases maintenance space at the following airports: Montreal, Ottawa, Winnipeg, Calgary, Edmonton, Vancouver and Saskatoon.

- 13. The Company derives approximately 98% of its revenues from its two largest customers, TCCI and TUI Travel PLC ("TUI"), operating through their subsidiaries Signature Vacations ("Signature") and Sunquest respectively.
- 14. The Company owns 100% of a subsidiary in the United Kingdom. Management has informed us that the only asset of this subsidiary is a bank account with a current balance of approximately \$5,000.

FTI's ROLE

On January 22, 2010, FTI was engaged to perform, among other things, weekly cash flow and payables reporting to the original Lenders. On February 19, 2010, FTI began providing weekly cash flow and payables reporting directly to TCCI, subsequent to the purchase by TCCI of the remaining secured debt of the Senior Lenders. In accordance with the Amended and Restated Credit Agreement, Skyservice was required to retain FTI to monitor the cash and payables position of the Company. FTI did not participate in any negotiations with creditors or customers throughout its engagement.

DETERIORATION OF BUSINESS

- 16. In September 2009, TUI acquired a 25 percent voting interest and 49 percent equity stake in Sunwing, a competing charter airline. Subsequent to the acquisition, TUI informed the Company that it would be transferring its Signature flights to Sunwing once the early termination date of October 31, 2012 was reached. The current contract between Skyservice and TUI ends October 31, 2013.
- 17. Management has advised that, with the prospective loss of TUI's business the Company's cost structure is unsustainable and would need to change significantly in order to meet TCCI cost requirements. Without either TUI or TCCI business, or the business of replacement tour operators (which business has not been sourced), Skyservice is unable to continue operations.



Demand for Repayments

- 18. On March 30, 2010, Gibralt issued a demand for repayment of the Gibralt secured debt. We are advised that a payment has been made to Gibralt in accordance with this demand in the amount of approximately \$7.1 million. In addition approximately \$1.6 million which has been held by a law firm was released to Gibralt under the terms of a forbearance agreement between the Company and its original Lenders.
- 19. On March 30, 2010, TCCI issued a demand for repayment of the TCCI secured debt. The Company has not made any repayments in response to the demand for payment.

THE PROPOSED COURSE OF ACTION

An Orderly Shutdown

- 20. Due to the fact that Skyservice is ultimately expected to lose both of its major customers which have accounted historically for 98% of their revenue and the recent demands by Gibralt and TCCI, Skyservice will not be able to both repay the Secured Debt and continue operations.
- 21. A court appointed Receiver is proposed in order to ensure an orderly wind-down of Skyservice's business, to allow for an orderly realization on its assets for the benefit of its creditors and to protect the interest its stakeholders.
- 22. The Receiver will terminate the majority of the employees on behalf of Skyservice. The Proposed Receiver plans to have approximately fifty employees continue their employment with Skyservice for an interim period in order to assist in the winding up of the business.

TRAVEL DISRUPTION

23. The Proposed Receiver has been informed by TCCI that all TCCI travel from April 1st onwards has been rescheduled to other aircraft. The Proposed Receiver does not believe that TUI travel has been rescheduled yet as they may not have prepared for the potential of Skyservice ceasing operations. TUI has the following flights scheduled over the next week, the number of passengers is Management's estimation; exact numbers are not available at this time;

•	March 31 st	1 flight	190 people outbound	180 people inbound
•	April 1 st	5 flights	970 people outbound	970 people inbound
•	April 2 nd	6 flights	1200 people outbound	1200 people inbound
•	April 3 rd	9 flights	1800 people outbound	1800 people inbound
•	April 4 th	7 flights	1400 people outbound	1400 people inbound
•	April 5 th	6 flights	1200 people outbound	1200 people inbound
•	April 6 th	3 flights	600 people outbound	600 people inbound

24. It is the Proposed Receiver's understanding that a tour operator such as TUI or TCCI that meets the definitions of "travel wholesaler" or "travel agent" under the *Travel Industry Act* (Ontario) is required to pay the costs of trip completion for customers who have purchased their trip through an Ontario travel agency and whose travels cannot be completed. Accordingly, although some passengers may be subject to inconvenience, none should be stranded outside of Canada, or be forced to forego their vacation plans without access to compensation, or alternative vacation arrangements.

SECURITY REVIEW

- 25. As indicated in the Nensi Affidavit, registrations against Skyservice pursuant to personal property security legislation across Canada ("PPSA Legislation") are very extensive.
- 26. Subject to the discussion below, the Proposed Receiver has not reviewed the security or other agreements subject to such registrations or any of the underlying transactions, but would do so in the ordinary course of the receivership to the extent it became necessary or appropriate to do so.

(A) Thomas Cook Security

- 27. The Proposed Receiver was provided with copies of various security and other agreements in respect of the secured claims of TCCI that it acquired from Roynat Inc., as agent (the "Original Agent") for certain lenders (the "Original Lenders") pursuant to an assignment and assumption agreement dated as of February 12, 2010 (the "Assignment Agreement").
- 28. The Proposed Receiver's counsel has reviewed certain of those security agreements, including:
 - (a) A general security agreement dated October 19, 2007 between a predecessor of Skyservice and the Original Agent (the "Thomas Cook GSA"), which, among other things, provides for the grant of a security interest in all of the property of Skyservice, real and personal, as security for all present and future obligations of Skyservice owing to the Original Lenders;

- (b) A debenture dated October 19, 2007 granted by a predecessor of Skyservice in favour of the Original Agent (the "Office Building Debenture") which, among other things, provides for the grant of a charge and mortgage over all owned and after acquired real and leasehold property of Skyservice, including the real property municipally known as 31 Fasken Drive, Toronto (but specifically excluding the leasehold property located at 6932 Vanguard Drive, Mississauga, Hangers 6 and 6A at Pearson International Airport) (the "Office Building and Other Lands"), as security for all present and future obligations of Skyservice owing to the Original Lenders;
- (c) A debenture dated October 19, 2007 granted by a predecessor of Skyservice in favour of the Original Agent (the "Hangar Debenture") which, among other things, provides for the grant of a charge and mortgage over the leasehold property and all buildings, erections, fixed machinery and fixed equipment at the property municipally known as 6932 Vanguard Drive, Mississauga (which includes Hangers 6 and 6A at Pearson International Airport) (the "Hangar Lands"), as security for all present and future obligations of Skyservice owing to the Original Lenders;
- (d) A tri-party agreement dated October 19, 2007 among Greater Toronto Airports Authority ("GTAA"), a predecessor of Skyservice and the Original Agent ("Tri-Party Agreement") in respect of the consent by the GTAA and other agreements relating to the charge of the GTAA Lease dated November 1, 2000 (the "GTAA Lease") pursuant to the Hangar Debenture;

- (e) An acknowledgement and confirmation agreement dated October 19, 2007 given by Skyservice (as successor by amalgamation) to the Original Agent whereby Skyservice ratified, confirmed, acknowledged and agreed to be bound by all obligations, indebtedness and liabilities of the grants of security made by its predecessors, being Skyservice Airlines Inc. and 6756140 Canada Inc.
- 29. The Proposed Receiver's counsel has confirmed to the Proposed Receiver that, subject to customary opinion assumptions and qualifications (including with respect to the existence and validity of the debt secured by the security and with respect to preferences and other forms of impeachable transactions):
 - (a) The Thomas Cook GSA is properly registered in Ontario, British Columbia and Alberta pursuant to the applicable PPSA Legislation, creates a valid security interest in the personal property of Skyservice located in those provinces and is enforceable against Skyservice under Ontario law (the law stated to be governing law of the Thomas Cook GSA); and
 - (b) The Office Building Debenture creates a valid charge of Skyservice's interest in the Office Building and Other Lands in favour of TCCI and is enforceable against Skyservice under Ontario law.
- 30. The Proposed Receiver's counsel is still reviewing the Hangar Debenture and related documents. The Proposed Receiver can report on the same during the course of the receivership.
- 31. The Proposed Receiver notes that registrations have also been made by TCCI under applicable PPSA Legislation in Saskatchewan and Manitoba, but the Proposed Receiver has not at this stage employed local counsel to provide a formal opinion on the effectiveness of those registrations.

(B) Gibralt Security



- The Proposed Receiver was provided with copies of certain security and other agreements in respect of the secured claims of Gibralt.
- 33. The Proposed Receiver's counsel has reviewed certain of those security agreements, including:
 - (a) A general security agreement dated October 19, 2007 between a predecessor of Skyservice and Gibralt (the "Gibralt GSA"), which, among other things, provides for the grant of a security interest in all of the property of Skyservice, real and personal, as security for all present and future obligations of Skyservice owing to Gibralt.
 - (b) A charge/mortgage of land dated and registered December 4, 2009 against Skyservice in favour of Gibralt (the "Gibralt Charge") which, among other things, provides for the grant of a charge and mortgage over the property municipally known as 31 Fasken Drive, Toronto (as the "Gibralt Charged Lands"), as security for the payment of all present and future indebtedness and liabilities of Skyservice to Gibralt.
- 34. The Proposed Receiver's counsel has confirmed to the Proposed Receiver that, subject to customary opinion assumptions and qualifications (including with respect to the existence and validity of the debt secured by the security and with respect to preferences and other forms of impeachable transactions):
 - (a) The Gibralt GSA is properly registered in Ontario, British Columbia and Alberta pursuant to the applicable PPSA Legislation, creates a valid security interest in the personal property of Skyservice located in those provinces and is enforceable against Skyservice under Ontario law (the law stated to be governing law of the Gibralt GSA);

(b) The Gibralt Charge creates a valid charge of Skyservice's interest in the Gibralt Charged Lands in favour of Gibralt and is enforceable against Skyservice under Ontario law (the law stated to be governing law of the Gibralt Charge).

CONCLUSION

- 35. The Proposed Receiver is of the view that the relief requested by the Applicant is necessary, reasonable and justified. The Proposed Receiver is also of the view that an orderly shutdown of the Company's operations will help maximize the recoveries for the Company's unsecured creditors and senior lenders.
- 36. Accordingly, the Proposed Receiver respectfully supports the Applicant's request for the appointment of a receiver by this Honourable Court.
- 37. The Proposed Receiver has received an indemnity from TCCI a copy of which is provided as Appendix "B".

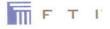
The Proposed Receiver respectfully submits to the Court this Pre-Filing Report.

Dated this 30th day of March, 2010.

FTI Consulting Canada Inc. The Proposed Receiver of Skyservice Airlines Inc.

Paul Bishop

Senior Managing Director



Appendix A

FTI Consulting Inc. consent to act as Receiver

Court File No.

ONTARIO SUPERIOR COURT OF JUSTICE COMMERCIAL LIST

IN THE MATTER OF THE RECEIVERSHIP OF SKYSERVICE AIRLINES INC.

BETWEEN:

THOMAS COOK CANADA INC.

Applicant

- and -

SKYSERVICE AIRLINES INC.

Respondent

CONSENT TO ACT AS RECEIVER

FTI CONSULTING CANADA INC. he reby consents to act as receiver pursuant to Section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended, and as receiver pursuant to Section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended, of Skyservice Airlines Inc.

DATED this 31st day of March, 2010.

FTI CONSULTING CANADA INC.

7:

Name: Paul Bishop

Title: Senior Managing Director

Appendix B

TCCI indemnity of FTI Consulting Inc.



March 30, 2010

FTI Consulting Canada Inc. TD Waterhouse Tower 79 Wellington Street West Suite 2010, P.O. Box 104 Toronto, Ontario M5K 1G8

Attention: Mr. Paul Bishop, Senior Managing Director

Dear Sirs/Mesdames:

Re: Skyservice Airlines

Thomas Cook Canada Inc. (along with its successors and assigns, "Thomas Cook") has asked FTI Consulting Canada Inc. ("FTI") to act, and FTI has agreed to act, as the court-appointed receiver of all the assets, undertakings and properties of Skyservice Airlines Inc. ("Skyservice") if so appointed pursuant to an Order of the Ontario Superior Court of Justice (Commercial List) in form and substance satisfactory to FTI.

In consideration of FTI agreeing to do so, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

- Thomas Cook unconditionally guarantees the payment of, and undertakes and agrees to pay promptly upon request (provided that there are insufficient available funds in the estate of Skyservice), the fees and disbursements (including the fees and disbursements of FTI's legal counsel, on a solicitor-client basis) ("Fees and Disbursements") which may be incurred by FTI in connection with the Skyservice receivership proceedings, including without limitation, in respect of preparation for the proceedings, excluding any Fees and Disbursements incurred on the following matters (the "Excluded Matters"):
 - operating the business of Skyservice (as distinct from any steps taken in connection with the wind-down of the business of Skyservice and realization on assets, which are not Excluded Matters); and
 - (b) any proceedings to challenge the indebtedness owed or owing by Skyservice or security held by Thomas Cook or Gibralt Capital Corporation (as distinct from any steps taken to review such security, the debt secured thereby and transactions giving rise thereto in preparation for the receivership application by Thomas Cook or in the ordinary course of the receivership, which are not Excluded Matters).

- Thomas Cook agrees to indemnify and save harmless each of FTI, its affiliates and their respective officers, directors, partners, employees and agents (the "FTI Parties"), from and against:
 - (a) any and all costs, charges, liabilities, damages, demands, obligations, debts, judgments, fines, claims, settlement payments and expenses (including all Fees and Disbursements) incurred directly or indirectly arising out of, based upon, or otherwise in connection with FTI's engagement as receiver, the Skyservice receivership proceedings, or any other proceedings to which any of the FTI Parties is made a party by reason of FTI's engagement or activities as receiver or by reason of anything alleged to have been done, omitted or acquiesced in by FTI as receiver (collectively, "Claims"), save and except for Claims that arise as a result of the wilful misconduct or gross negligence of such FTI Party or arise from the Excluded Matters; and
 - (b) any and all costs and expenses (including Fees and Disbursements) incurred in connection with any attempt to enforce this letter agreement.
- 3. Thomas Cook agrees that any payments under this letter agreement will be made free and clear of and without set-off, counterclaim, restrictions or conditions of any nature and that the above agreements and obligations are continuing liabilities of Thomas Cook that will survive FTI's termination or discharge as receiver of Skyservice.

Yours very truly,

THOMAS COOK CANADA INC.

Per:

Title: Kanm News - CEO.

I/We have authority to bind the Corporation.

Acknowledged and Agreed by

FTI Consulting Canada Inc.

Per:

Paul Bishop

Senior Managing Director